



## Motor fuel tax law changes effective July 1, 2001

Please provide this information to all personnel in tax, sales, and marketing departments that need to make the appropriate changes required by these law changes.

### House File 736

...as passed by the Iowa Legislature includes the following changes to the fuel and environmental protection charge (EPC) tax law. Item No. 6 will affect the most persons, as it involves a change in the taxation point of alcohol in some transactions.

#### 1. Denatured Ethanol

Code section 452A.2 is amended to add a definition for "denatured ethanol" in the following new subsection: 4A. "Denatured ethanol" means ethanol that is to be blended with gasoline, has been derived from cereal grains, complies with American society of testing materials designation D-4806-95b, and may be denatured only as specified in Code of Federal Regulations, Titles 20, 21, and 27. Alcohol and denatured ethanol have the same meaning in this chapter.

#### 2. Ethanol Blended Gasoline

Code section 452A.2, subsection 17, paragraph "a", is amended to redefine "motor fuel" to include ethanol blended gasoline. "a. All products commonly or commercially known or sold as gasoline, including ethanol blended gasoline, casinghead, and absorption or natural gasoline, regardless of their classifications or uses, and including transmix which serves as a buffer between fuel products in the pipeline distribution process."

#### 3. Racing Fuel

Code section 452A.2 is amended to add definition for "racing fuel" in the following new subsection: 18A. "Racing fuel" means leaded gasoline of one hundred ten octane or more that does not meet American society of testing materials designation D-4814 for gasoline and is sold in bulk for use in nonregistered motor vehicles.

#### 4. Racing Fuel

Code section 452A.17, subsection 1, paragraph "a", is amended to permit a refund of tax paid on fuel used for racing. This change is being made to conform to federal regulations. It is amended by adding the following new subparagraph: (10) Racing fuel.

#### 5. EPC (Environmental Protection Charge)

Chapter 424 (Environmental Protection Charge) is amended by changing various code section references regarding the statute of limitations from five years to three years.

#### 6. Alcohol

Code section 452A.3, subsection 5, paragraph "a", is amended to provide that the tax on the sale of alcohol be paid, in most cases, when it is withdrawn from the terminal rather than when it is sold within the terminal, as is the case under present law, by adding the following new unnumbered paragraph: Tax shall not be paid when the sale of alcohol occurs within a terminal from an alcohol manufacturer to an Iowa licensed supplier. The tax shall be paid by the Iowa licensed supplier when the invoiced gross gallonage of the alcohol or the alcohol part of ethanol blended gasoline is withdrawn from a terminal for delivery in this state.

#### Effective Dates

These six sections take effect July 1, 2001.

#### Further explanations and examples:

**Changes 1 and 2** on denatured ethanol and ethanol blended gasoline are for clarity of the statute and should not change anything.

**Changes 3 and 4** involve racing fuel. Beginning July 1, 2001, Iowa fuel tax paid on racing fuel can be refunded. The tax on the racing fuel **must still be paid** as before, but now the final user can apply for a refund or take credit on their income tax return for the fuel tax paid.

In order to receive a refund, a person must complete an application for a refund

permit (available on our web site [www.state.ia.us/tax](http://www.state.ia.us/tax) or call 515-242-6033). You can claim a credit against your income taxes by completing form IA 4136 and attaching it to your income tax return. An income tax credit cannot be claimed for any year in which a motor fuel refund claim has been filed. If you choose the refund claim route, there are limitations on the refund claim. You must have \$60 in refund before you can file a claim. Once the \$60 minimum has been met, the claim must be filed within one year. A refund of less than \$60 will be allowed if the claimant is not required to file an income tax return.

**Change 5** involves only EPC (Environmental Protection Charge). Various statutes in chapter 424 regarding the statute of limitations were changed from five years to three years. This change makes EPC consistent with fuel taxes for periods beginning July 1, 2001, and after. For periods prior to July 1, 2001, EPC is still subject to a five year statute of limitations.

**Change 6** involves the taxation of alcohol. The change in the taxation of alcohol was intended to simplify the reporting of alcohol and tracking of alcohol by usually having the person (supplier) who sells the ethanol blended fuel at the rack be the person who collects and remits all the motor fuel tax on ethanol at the present 19 cents per gallon rate. Under the present way, in many cases the tax on the alcohol had to be charged prior to it reaching the supplier at the rack, while the tax on the gasoline was charged and collected by the supplier as it left the rack.

**In all these examples**, the fuel is delivered to an Iowa location as evidenced by the

**This is the second issue of the *Iowa Fuel Tax News*. It will be published as needed to inform those working with motor fuel tax news and updates. If there are items you would like to see included in this newsletter or on the department's website, please let us know.**

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Motor Fuel Taxes***

bill of lading. If the ethanol blended gasoline is delivered outside of Iowa, the only difference would be that the sale to the D (distributor) would be exempt if D had a valid exporters license. In these examples, the only change from the present method of taxation is that some of the sales of alcohol are tax free and a different person is remitting the tax to the state. Examples 1, 2, and 3 are the only ones that are affected by this new law change, effective July 1, 2001. The rest of the examples are provided only to reinforce the present way of taxation in transactions, which has not changed.

**1. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to an Iowa terminal and delivers it into alcohol storage at the terminal owned by AM. AM then sells alcohol to B (an Iowa Licensed supplier) who blends alcohol with gasoline they pulled from their own gasoline storage at the terminal. AM sells the alcohol tax free to B. B sells the ethanol blended fuel at the rack to D (distributor). B charges and collects the 19 cents per gallon from their customer. B remits the tax to the state on the ethanol blended gasoline.

**2. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to a terminal and delivers it into alcohol storage at the terminal owned by AM. AM then sells alcohol to B (an Iowa Licensed supplier) who blends alcohol with gasoline they pulled on exchange from C (another Iowa licensed supplier) with gasoline storage at the terminal. AM sells the alcohol tax free to B. C sells the gasoline to B tax free. B sells the ethanol blended fuel at the rack to D (distributor). B charges and collects the 19 cents per gallon from their customer (D) on the ethanol blended fuel. B remits the tax to the state on the ethanol blended gasoline.

**3. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to a terminal and delivers it into alcohol storage at the terminal owned by AM. AM then sells alcohol to B (an Iowa Licensed supplier). B then sells the alcohol to C (an Iowa licensed supplier) who blends the alcohol with gasoline they pulled on exchange from E (another Iowa licensed supplier) with gasoline storage at the terminal. AM sells the alcohol tax free to B. B sells the alcohol to C tax paid. E sells the gasoline to C tax free. C sells the ethanol blended fuel at the rack to D

(distributor). C charges and collects the 19 cents per gallon from their customer on the ethanol blended fuel. B remits the tax to the state on the alcohol. C remits the tax to the state on the gasoline. Note: Only the sale of alcohol from the alcohol manufacturer to a licensed supplier in the terminal is a tax free sale. Further sales of the alcohol by a licensed supplier to other licensed supplier are not tax free sales.

**4. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to an Iowa terminal and delivers it into alcohol storage at the terminal owned by AM. AM then sells alcohol to D (distributor) at the rack. AM charges and collects the 19 cents per gallon from their customer (D). AM remits the tax to the state on the alcohol.

**5. Nonterminal location deliveries of alcohol:** On all transaction of alcohol where delivery goes from the manufacturer to a nonterminal location, the manufacturer must charge the fuel tax. The only time tax is not charged is when the purchaser has an Iowa blenders licenses and requests the seller to not charge them tax. Persons with blenders licenses must file returns, remit the tax and they do not receive any distribution allowance. No change from present law.

**6. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to a terminal and delivers it into alcohol storage at the terminal owned by B (no tax due – same as present law). B (An Iowa licensed supplier) then blends the alcohol with gasoline they pulled on exchange from C (another Iowa licensed supplier) with gasoline storage at the terminal. AM sells the alcohol tax free to B. C sells the gasoline to B tax free. B sells the ethanol blended fuel at the rack to D (distributor). B charges and collects the 19 cents per gallon from their customer (D) on the ethanol blended fuel. B remits the tax to the state on the ethanol blended gasoline.

**7. Example:** Alcohol Manufacturer (AM) trucks alcohol they manufacture to a terminal and delivers it into alcohol storage at the terminal owned by AM. AM then sells alcohol to N (non Iowa Licensed supplier). N sells the alcohol to C (another Iowa licensed supplier) who blends alcohol with gasoline they pulled from their own storage at the terminal. AM sells the alcohol to N tax paid. N sells the alcohol to C tax paid. C sells the ethanol blended fuel at the rack to D (distributor).

C charges and collects the 19 cents per gallon from their customer on the ethanol blended fuel. AM remits the tax to the state on the alcohol. C remits the tax to the state on the gasoline. No change from present law.

#### **Fuel Tax Rates 2002 law change:**

House File 716 was also passed by the Iowa Legislature. It will not affect motor fuel tax until July 1, 2002. *The fuel tax rate for gasoline and ethanol blended gasoline may change each fiscal year beginning with July 1, 2002. The rate will be determined in April 2002.* They are determined based on the percentage of ethanol blended gasoline sold in Iowa for the previous calendar year. More information will be provided next year when the new rates are determined.

The full text of these bills is available at <http://www.legis.state.ia.us/GA/79GA/Legislation/index.html>

An updated list of all fuel tax licenses issued are available on the departments web site at [www.state.ia.us/tax](http://www.state.ia.us/tax) under tax forms and motor fuel tax.

If you have questions, please contact us.

#### **TAXPAYER ASSISTANCE**

##### **BY TELEPHONE OR E-MAIL**

Motor Fuel Unit  
Dave Lanham at 515-242-6033  
[David.Lanham@idrf.state.ia.us](mailto:David.Lanham@idrf.state.ia.us)  
Julie Stokke at 515-281-6447  
[Julie.Stokke@idrf.state.ia.us](mailto:Julie.Stokke@idrf.state.ia.us)

##### **BY INTERNET**

Web: <http://www.state.ia.us/tax>  
E-Mail: [idrf@idrf.state.ia.us](mailto:idrf@idrf.state.ia.us)

##### **BY MAIL**

Iowa Dept. of Revenue & Finance  
Compliance Division  
Fuel Tax Unit  
PO Box 10456  
Des Moines IA 50306-0456

##### **FAX: EFT HELPLINE**

515-281-3756 1-800-338-4692

##### **MAIL FUEL TAX RETURNS**

Iowa Dept. of Revenue & Finance  
PO Box 1792  
Des Moines IA 50306-1792

##### **ONLINE TAX RESEARCH LIBRARY**

<http://itrl.state.ia.us>  
Motor Fuel Tax Code Chapter 452A  
Departmental Rules and Regulations  
Chapters 67, 68, 69  
Various rulings and cases